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MANAGEMENT

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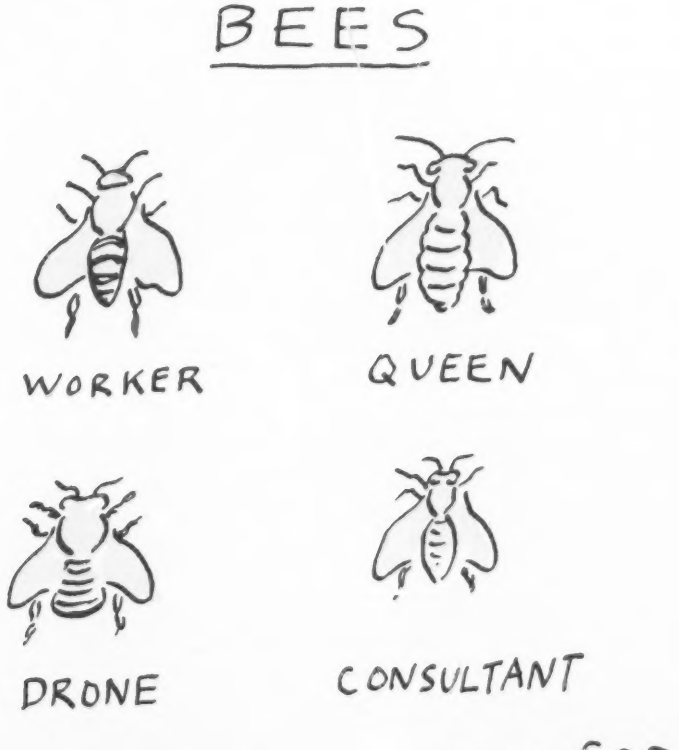

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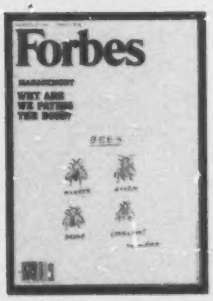

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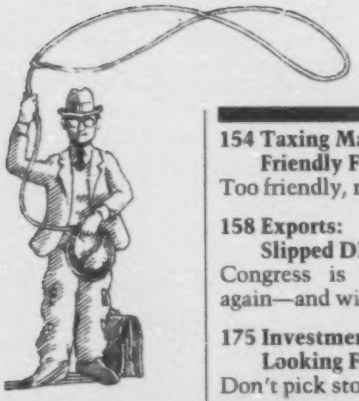

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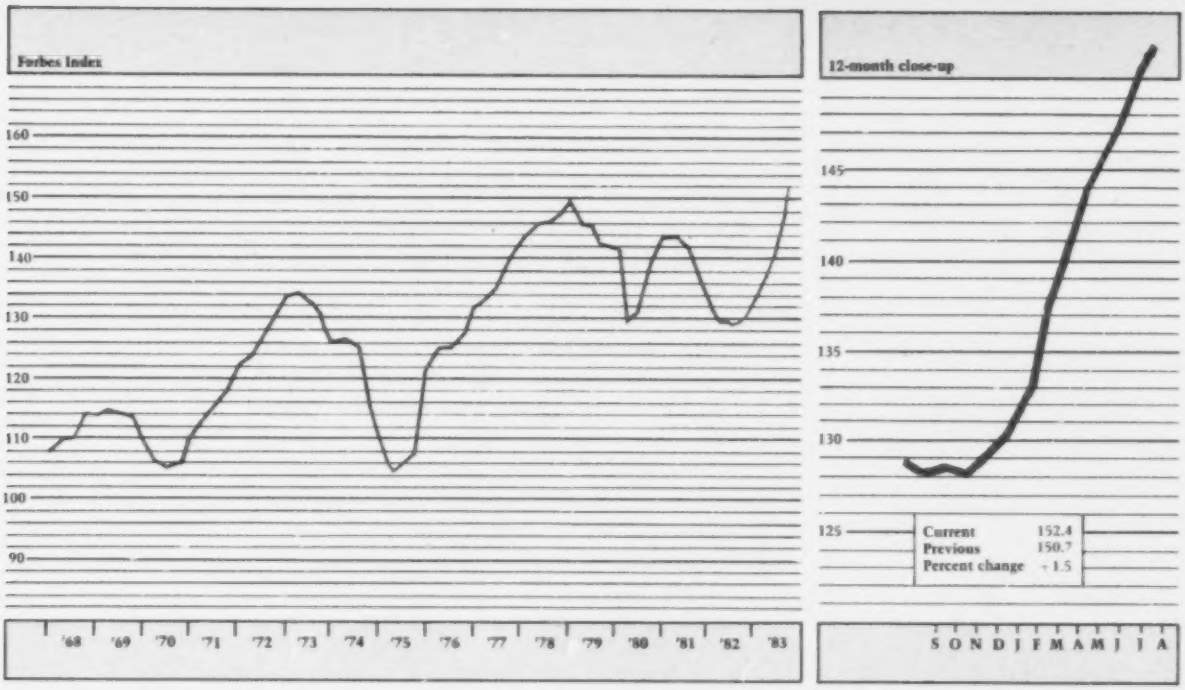
The Forbes Index



Growing but slowing. The Forbes Index again registered an advance. However, over the last several weeks the growth rate of these gains has fallen steadily. This may be a positive sign—indicating that the rebounding economy will avoid premature overheating.

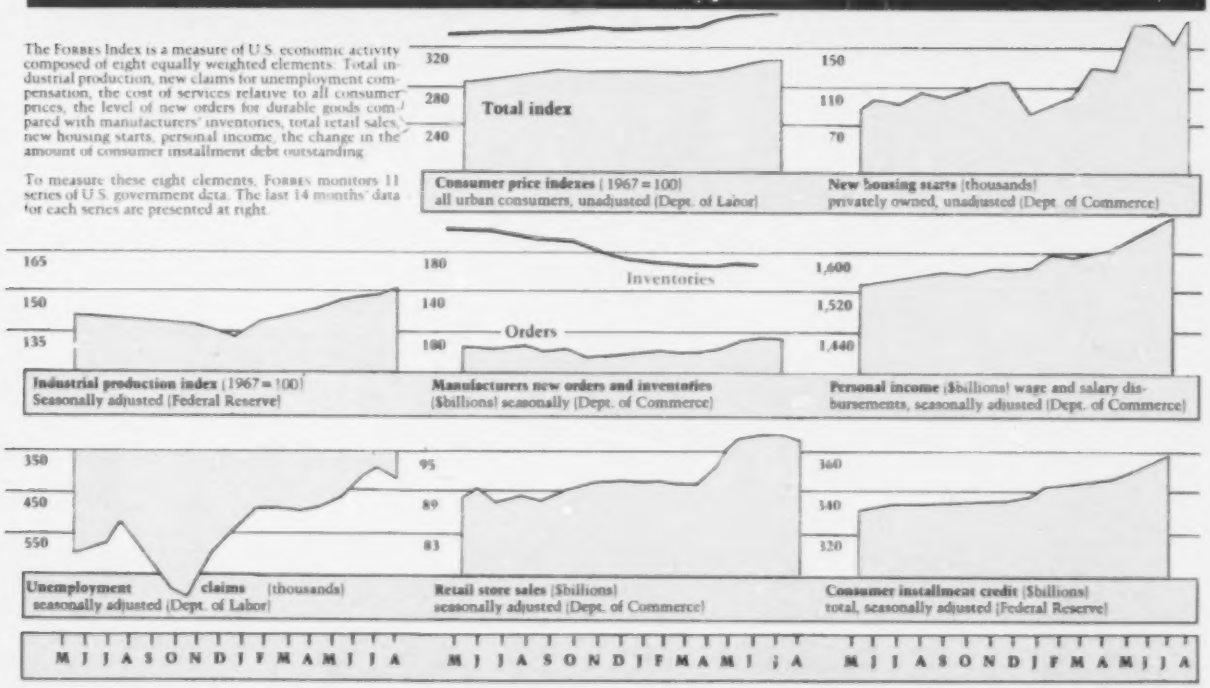
New housing starts show a 1.8% gain in August. Industrial production rose 0.9%. Consumer installment credit made a modest month-to-month advance of 0.2%.

A 7.9% jump in new unemployment claims, however, helped keep the Forbes Index from posting new gains. So did a 1.4% drop in retail sales. But this figure is misleading: The decline in retail sales was caused in part by the lack of new cars on dealers' lots. With Detroit increasing production fast, this situation shouldn't last long.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.


320
280
240
Total index
150
110
70
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
165
150
135
180
140
100
Inventories
Orders
1,600
1,520
1,440
Industrial production index (1967 = 100) Seasonally adjusted (Federal Reserve)
Manufacturers new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
350
450
550
95
89
83
360
340
320
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
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M J J A S O N D J F M A M J J A
M J J A S O N D J F M A M J J A

Crop yields soar, mechanization advances, subsidies climb. European agriculture follows that familiar path upward. Add it all up and you have . . .

More bad news for the American farmer

By Rosemary Brady

MAURICE POPOT rises with the sun at 6:30 on his farm 37 miles south of Paris. In denim jacket and jeans, a cloth cap on his head, he strolls to the barn that holds four of his ten tractors and instructs two employees on their jobs for the day. One will treat the *betteraves*, the sugar beets, with expensive fertilizers. Another will begin to spread manure over 370 acres soon to be planted with wheat.

Popot, 63, is no peasant. He's a modern French farmer with a 4% increase in production annually for the past decade and a $65,000 income last year. In his way, Popot symbolizes the enormous change taking place in the fields of Western Europe, a change directly affecting America's own great farm industry.

"I was born here on this farm," he says, hopping into his well-kept Renault and heading for a shortcut through his 580 acres.

"We used to farm many little parcels only 10 meters big. We plowed the fields with horses. We kept a lot of animals, many sheep. Now we have no animals except for our two dogs. Since the war we've had a kind of industrial revolution. New fertilizers for treating crops. Stronger and better equipment. It's incredible," he says.

Indeed it is. European agriculture is going through the same changes that rolled through the American heartland the past three decades—and that's bad news for American farmers seeking markets abroad. There's strong productivity growth. On Popot's farm, in a region that looks re-

Maurice Popot, his home and one of his ten tractors at work on his 580 acres 37
"We used to farm many little parcels only 10 meters big. We plowed the

miles south of Paris
fields with horses," he says. "Since the war we've had a kind of industrial revolution."

Comparing the farms

Farms in the Common Market nations still are smaller and more labor-intensive than farms in the U.S. But in the past decade the number of farms decreased by 18%, the acreage per farm was up 30%, fertilizer and tractor use soared and the number of laborers employed dropped 35%.

	EEC	U.S.
Agriculture as a % of gross domestic product	3.7%	2.5%
Total cropland	121.3 mil acres	413 mil acres
Number farms	6,758,000	2,428,000
Average farm size	18.3 acres	429 acres
Output per farm	$20,137	$40,627
Gross value added*	$76.6 billion	$77.8 billion
Employed in agriculture	8.8 million	3.4 million
% employed in agriculture	8.2	3.4%
Crop area per worker	13.7 acres	121.3 acres
Persons supported with one farm worker's work	25	60

*Value of production minus cost of production. Source: U.S. government 1981 figures.

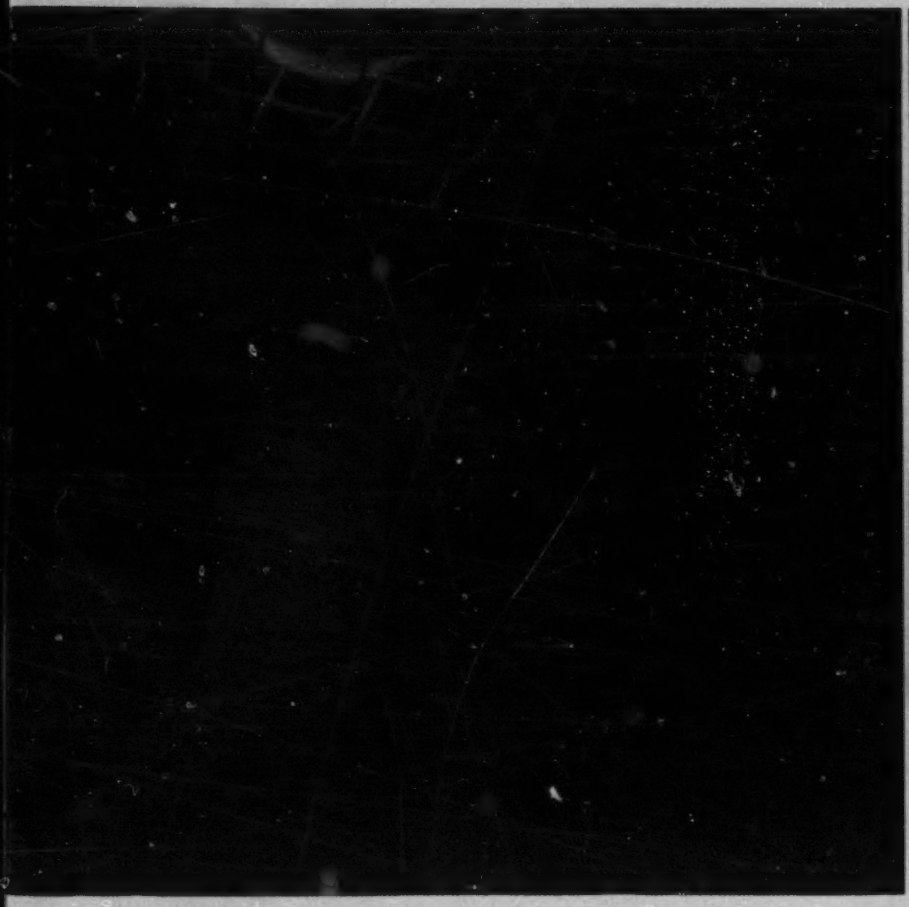
The livestock of Henri Hello and his wife, Odile, who raise 1,400 pigs on 70 acres in Brittany
"We don't care about grand political themes, but we will defend our incomes," says Henri, who sees himself

markably like Kansas, wheat yields have jumped 60%. On farms as large as 1,500 acres, American irrigation systems and fertilizers help produce harvests twice as big as in our own wheat belt. Within the last decade fertilizer use is up a third and there are a fourth more tractors. While the number of farms in the ten-nation EEC declined 18%, the acreage per farm increased 30%, and farm employment dropped 35%. Europe became a net exporter not only of wine, cheese and poultry but also of red meat, wheat, barley and sugar, with all farm exports up 156% since 1976.

But European farmers are running into the same problem as their American brothers. They are beginning to grow more than they can eat or sell, and no one knows how to turn down the spigot. Spending in the EEC, the European Economic Community, the Common Market, to support agriculture doubled since 1978 and jumped 30% this year to $14.5 billion. Separate support systems in the various nations push the total to $30 billion and the EEC governments are frightened by the rising bill. So while Popot harvests his sugar beets and plants his wheat this fall, foreign ministers and finance ministers will argue: The U.K. and West Germany want to slash the subsidy bill while France, Ireland, Italy and Greece want higher incomes for their farmers, and the Dutch churn out milk and cheese and want help getting rid of it. And none dare offend those farmers who have learned about the ballot box and vote their pocketbooks. Meanwhile, the U.S. and the Europeans skirmish over export markets and accuse each other of unfair subsidies.

No wonder that out in the fields Popot is confident: "I don't think [the EEC] will make many changes. I don't think they can make many changes."

But before sneering at the Europeans, remember that American subsidies are jumping to $21 billion this year, from $11 billion last year, while we have amassed a pile of milk and cheese as big as the Ritz. Our Congress can't figure a way out, either. If there's a difference between policy,



as a cross between an artisan and an industrialist.

production and gives the surpluses away when the pile gets big. The Common Market does the same thing in a different way: It pays to encourage production and gets rid of the surplus by subsidizing exports.

In spite of all this, Western Europe remains the biggest customer for U.S. farm products: $11 billion in sales last year, including $8.3 billion to the Common Market states, in all almost one-third of some $36.6 billion in total U.S. agricultural exports. But U.S. farm exports to the EEC are dropping fast, and the Common Market policy, which includes levies on farm imports into Europe and subsidies for EEC farm exports, irks the U.S.

Last year European wheat farmers earned an average minimum support price of $209 per metric ton of wheat, vs. $148 for farmers in the U.S. Such high prices encourage production. Then the EEC subsidizes the dumping of surpluses on the world market. The Common Market's share of the world wheat trade rose from 8% in the early 1970s to 15% last year with expenditures on wheat export subsidies now topping $1 billion. But, shades of Wisconsin, the dairy problem is worse. Milk deliveries increase 3.5% a year while demand grows only 0.5%.

The EEC is trying to turn the spigot down. Last year the EEC threatened farmers with a curb on the increasing wheat guarantee price and a tax on milk, if production didn't level off. The farmers paid little heed. Milk production topped the goals and still piles up, 1.4 million metric tons of skim milk powder and 800,000 metric tons of butter remain unsold. Now the EEC talks about firm quotas and punishment taxes on overproduction and a cut in the butter subsidy. "It is no longer either right or possible to continue providing the Community's 8 million farmers with an open-ended price guarantee irrespective of the market," says EEC Agricultural Commissioner Poul Dalsager.

But threats don't always frighten farmers. "I can't tell you there will be a revolution but there will be a lot of trouble if they try to impose quotas," says Domenic LeCoq, a local official of FNSEA, the large and tough French farmers union, in St. Brieuc, Brittany. Last year, in a successful drive to boost prices, the union flooded Paris with farmers. "We could easily flood Paris with farmers again," LeCoq tells FORBES. "We don't care about grand political themes, but we will defend our incomes," says Henri Hello, 35, a pig farmer who with his wife, Odile, raises 1,400 pigs on a 70-acre farm in Brittany. In the past few years, French farmers have fought a turkey war with the U.K., a wine war with Italy and complained that West Germans have an unfair currency advantage.

So, one way or another, the U.S. farmer faces increased competition from Europe. We've seen this already, as the U.S. threw huge subsidies at Egypt to win grain, butter and cheese contracts, while the Europeans snatched poultry sales to Saudi Arabia and Iraq. We attack their support of pasta processors, while they threaten restrictions on feed imports from us. No conferences of ministers can solve this problem: European agriculture is changed. The peasant is dying, long live the farmer. ■

If American managers were doing what they are paid well to do, would they really need so much high-priced help? Here's a skeptical look at one of the nation's fastest-growing professions.

Are all these consultants really necessary?

By John A. Byrne

CHARLES BLUHDORN, the late chairman of Gulf & Western Industries, was very much an old-fashioned, gut businessman. He had, to put it mildly, little use for consultants. But with the ink scarcely dry on Bluhdorn's obituaries, his successors put a relatively small consulting job up for bids.

Although only little more than $100,000 in total fees is involved, four consulting firms, including heavyweight McKinsey & Co., were in there bidding. "Everyone wanted this assignment because it means exposure to the new management," confided one competitor. That could bring lots of business, since G&W, a $5.3 billion-a-year conglomerate, is a huge, untapped market for consultants.

How huge? Well, consider what's happening at Pacific Telephone & Telegraph, a company only slightly larger than G&W. The California utility's budget for outside consultants and researchers last year ran to $7.7 million—a figure that is probably rising fast. To prepare for life without AT&T, PacTel is hiring consultants by the busload, as many as 90 firms by one recent estimate.

Management Analysis Center of Cambridge, Mass., for example, is laying the groundwork for a new "corporate culture" at PacTel. Syn-Cronamics of Englewood Cliffs, N.J. is working to boost employee productivity. Coopers & Lybrand is helping management develop an entrepreneurial spirit. Meanwhile, the Kappa Group was brought in from Miami to use "military concepts" in making PacTel's marketers more aggressive. "There are so many of us, we're always bumping into each other," says one consultant.

Is this any way to run a telephone company? Opinions differ, but PacTel's infatuation with consultants is certainly a lot more common than Bluhdorn's aversion to them. Executives at big companies everywhere can't pay the bills, hire employees, reorganize, launch new products or plot strategy without outside help.

Consultants have become the shamans of U.S. business—and they don't hesitate to sell themselves as such. A shaman will threaten the tribe: Unless I do my dance, the rains won't come. John Hartshorne, executive director of the Institute of Management Consultants, sounds positively shamanistic when he says, "If you could erase all the corrective processes that management consultants have set into motion over the past three decades, the U.S. economy would collapse."

There are no precise figures, but the best estimate is that U.S. business spends as much as $3 billion a year to avert this threatened collapse. That is up from $1 billion a decade ago, and the number doesn't include specialized technical and engineering work. Nearly all Forbes 500s companies call in general management consultants at least once every 12 months. Over one-third ask for help more than four times annually.

Answering these calls for help keeps nearly 60,000 full-time consultants busy. At the top end, the industry supports full-service giants like Arthur D. Little, Booz, Allen & Hamilton, and McKinsey & Co., each of which has offices nationwide and more than 1,000 employees. Nearly every big accounting firm has a consulting subsidiary, too, but a good part of the business remains cottage industry. There are thousands of one- or two-man firms that often do very well for themselves with only a handful of customers.

Don't think consulting is always bad. A small industrial company may be better off asking for help in selling its one consumer product than in hiring a full-time marketing director. Even General Motors may need assistance in specialized areas, such as managing its real estate. But problems can develop when outsiders get too involved in a company's basic business. GM, in short, should know all there is to know about cars.

Asking for advice from outside experts, of course, is nothing new. Lawyers and doctors have been giving it for centuries. Governments have been seeking it, too, at least since the days when Franklin D. Roosevelt loosed a flood of Harvard professors on the ailing economy.

In business, consulting dates from

the Twenties, when Frederick Taylor's time and motion studies became popular. His disciples acquired a terrible image as industrial spies, masters of the speedup. But respectability came during World War II, when consultants helped mobilize private industry to serve the military. Then, in the Fifties and Sixties, U.S. business was booming and experienced managers were in short supply. Need a marketing man fast? Call a consultant.

The world was changing, and the field took on added dimension: "Strategic" consulting blossomed. Managers began getting help not just in narrow, technical areas but at the very heart of their business. Once industry acquired the habit of seeking outside advice, the habit fed on itself and became unkickable. Today there are companies that won't make a move without hiring consultants.

Who and what is a consultant? The only real qualification is having a client willing to pay for advice. "Anybody without a job and with $6.99 can buy 100 calling cards and go into the business," says Joseph Brady, president of the Association of Management Consulting Firms.

In another sense, consulting resembles psychoanalysis. It can become indispensable to the patient and last a lifetime. Once on the couch, some companies can't get off. Observers report that it is common for up to 80% of a firm's revenues to come from the same clients. A single project, carried out to the customer's satisfaction, almost inevitably leads to another. Staffers at Chicago-based Alexander Proudfoot, for example, say they have handled 46 assignments for one corporation during the past decade.

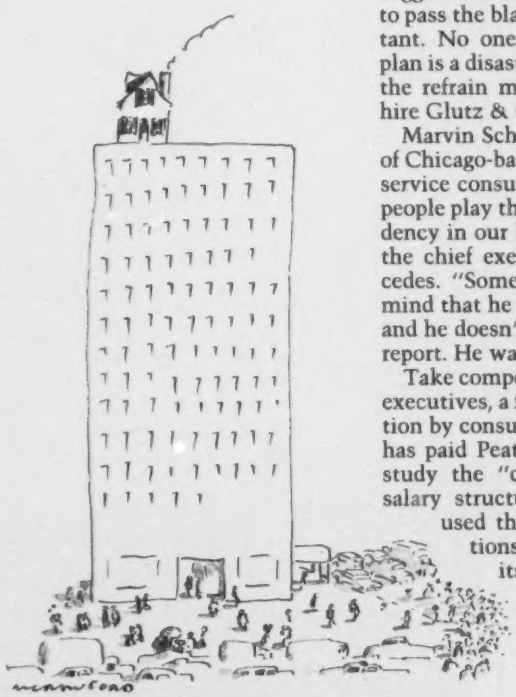
This means that many actions announced as internal corporate decisions are based almost entirely on a consultant's report. Talk to consultants in private, and a sense of their influence emerges. One New York City expert in corporate organization proudly shows a visitor seven pages in the annual report of a multibillion-dollar corporation. The text describes a major restructuring for which the consultant claims credit, but his name is never mentioned.

"Whenever I read the *Wall Street Journal*'s 'Who's News' column, I ask, 'Gee, which consultant did that?' " says George Whitmore, who recently merged his consulting business with the accounting firm Main Hurdman. "I know damn well there's a consultant behind lots of high-level management changes."

Has American management become so paralyzed that the bosses spend much of their time choosing consultants to make decisions for them? Things aren't that bad, of course, but an outsider could be forgiven for coming to that conclusion.

No wonder so many business school students want to become consultants. How else can a young, inexperienced generalist rub shoulders with top management and get the thrill of wielding influence at a large corporation? It doesn't hurt that starting salaries can reach $70,000. This explains why consulting has long been the most popular career choice of Harvard Business School graduates.

What do all these smart young people contribute? "Some projects are difficult or impossible to do inside because the company might lack expertise in them," says Dick Paget, a founder of Cresap, McCormick & Paget. "When a company wants an outside, objective opinion, it should call in a consultant. We wouldn't be used by management as often as we are if we didn't contribute something."



Perhaps. But the problem is that the consultant may be getting paid to do what good managers ought to do on their own. George Labovitz, a Boston University professor of management whose consulting firm has worked for Ingersoll-Rand and other top companies, is unusually candid. "Here's the secret of consulting," he explains. "We go in and ask everybody what's wrong with his office, or his plant or his company, and we write down everything they say. Then we ask, 'How would you fix it?' We come back to Boston, type up all our notes and hand them back to the client."

No question: Much of what passes for consulting really is telling executives what they could find out on their own if they bothered to ask. But outside recommendations come in a bound report with a six-figure price tag. This carries more weight than arguments like "We're buying the new word processing system because the folks in the typing pool say we need it."

The principle of self-preservation is often at work, too. If a consultant's suggestions don't work out, it's easy to pass the blame along to the consultant. No one says, "The marketing plan is a disaster, fire Smith." Instead, the refrain merely becomes, "Never hire Glutz & Co. again."

Marvin Schiller, managing director of Chicago-based A.T. Kearney, a full-service consultant, knows how some people play the game. "There is a tendency in our business to try to make the chief executive happy," he concedes. "Sometimes he has it in his mind that he wants to do something, and he doesn't want to see a negative report. He wants support."

Take compensation plans for senior executives, a favorite topic for evaluation by consultants. For years Texaco has paid Peat, Marwick, Mitchell to study the "competitiveness" of its salary structure. The company has used the outside recommendations as a basis for providing its executives with more money and fringe benefits. Not surprisingly, Peat Marwick continues to review that area. Kind of like finding a doctor who will tell you that it's okay to overeat and that martinis are good for you.

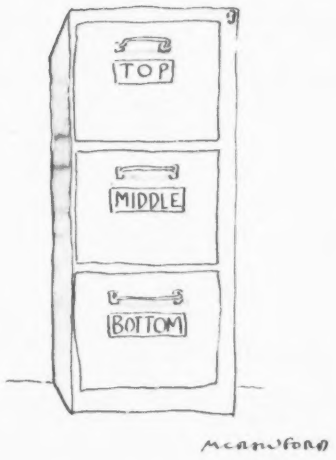
Whatever their real roles, it is clear that consultants are becoming more influential. But because of the secrecy that shrouds much of what they do, their effect is impossible to measure. What is apparent from interviews with scores of consultants, however, is that they make mistakes, sometimes big ones. Nearly every consultant will tell you about the time he was called in to help clean up a mess

"We go in and ask everybody what's wrong. . . . We come back to Boston, type up our notes and give them to the client."

caused by another consultant. "When you start out, you don't really know the company, and you may not even know the industry," says a former McKinsey man. "You're basically learning from the client, but you don't want him to know it."

Sometimes a consultant can make a bad situation worse. Two great American companies that got into deep trouble in recent years are A&P and International Harvester. Both were heavy and habitual users of consultants. Booz, Allen & Hamilton recruited Jonathan Scott to A&P in 1974 and Archie McCardell to International Harvester in 1977. Scott immediately began implementing a five-year recovery program based on a Booz, Allen study that reportedly cost $1 million. McCardell inherited a huge Booz, Allen-engineered reorganization that was the capstone of former President Brooks McCormick's effort to rejuvenate IH.

Let's take A&P first. The Booz plan recommended the closing of selected stores, a strategy that in retrospect was less radical than needed. In some areas the move left A&P too thin, and it worsened the food chain's labor problems. A&P had to transfer its oldest, most expensive and least productive employees to the stores that remained open. At Booz' urging, however, Scott also decentralized and apparently spent $20 million a year on a burdensome layer of bureaucracy that was later abandoned.



Clearly, the five-year plan was a failure. And by 1977 Booz was out. But relying on consultants is addictive. Enter McKinsey & Co., forced on Scott by A&P's board. More than a year and $1 million later, its report called for large-scale retrenchment, including the elimination of whole divisions. Losses, however, were growing, and a majority interest in A&P was soon acquired by a German food chain. New management rejected the McKinsey strategy and formulated its own austerity program.

A&P earned $13.1 million in the first quarter of fiscal 1983, the best results in more than a decade. Today the company seldom uses consultants. Booz and McKinsey, citing professional ethics, decline to comment.

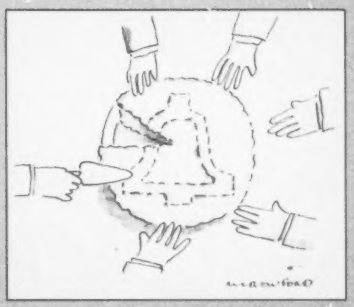
Consultants didn't help much at International Harvester, either. When Brooks McCormick brought in Booz in 1976 the IH assignment was one of the most important consulting contracts ever. Booz helped set up a decentralized structure in which each of IH's five businesses was independent, with its own president and staff. Corporate officers merely allocated capital among the subsidiaries. But two things went wrong: There was so much shifting of executives that it took years for the dust to settle, and the planners failed to appreciate that IH was operating in four capital-intensive businesses it could not financially support.

After McCardell succeeded McCormick he ended up abandoning the Booz reorganization. Alexander Proudfoot, meanwhile, had been plugging away on 17 cost reduction and inventory control projects at IH plants. Billings probably totaled $20 million over a 20-year period.

IH still had problems, however, so McCardell went back to Booz in 1981

We got our jobs through the Justice Department

Consultants, like most everyone, were pinched by the recession. But for them the recovery has an extra boost—the AT&T divestiture.



It created seven soon-to-be-independent regional holding companies, run by chief executives who never expected such radical change and aren't sure how to react. That means consultants' telephones are ringing off the hook. "The potential is staggering," says Philip Doherty, senior vice president of Theodore Barry & Associates. "These people are looking for anyone with a good idea," adds John Gaulding, senior vice president of Management Analysis Center.

Telephone companies are asking for help with everything from organizational studies to long-range planning. Michigan Bell brought in McKinsey & Co. to help develop marketing strategy. Executives at New York Telephone Co. and New England Telephone & Telegraph Co. hired Lippincott & Margulies to help them choose a corporate name. These name-change geniuses pondered deeply for almost five months and came up with a monstrosity—NYNEX Corp.

Many consultants, however, don't limit their AT&T business merely to one client. Touche Ross does work for six of the seven of the new holding companies, while Gaulding's Management Analysis Center works for three of the operating companies. One of the greatest beneficiaries is Booz, Allen & Hamilton. It has several AT&T projects in the works and has helped the telephone company plan divestiture and other strategy. Total fees from 1980 to 1982: $9.6 million.—J.A.B.

for a study to present to the company's creditors. Booz reportedly concluded that Harvester would turn a profit in 1982 and post significantly higher earnings in 1983. Instead, the company lost $1.6 billion in 1982, and McCardell was ousted. Now IH effectively has a ban on strategic planning consultants.

But not all consulting errors come at struggling companies. Consider what happened at Texas Instruments. In the early Seventies it called on the Boston Consulting Group, and later Bain & Co., a BCG offshoot, both of which created a corporate fad out of something called the experience curve. What's that? Simply the observation that manufacturing costs decline as a company gains production experience. BCG, however, carried such logic further and reasoned that gaining this cost advantage justifies pricing below cost early in a product cycle to become the market leader.

TI embraced this buy-your-way-into-new-products theory to enter the consumer electronics business. Unfortunately the firm didn't become a market leader. Instead it lost money—first in digital watches, then in hand-held calculators, now in home computers. After a decade of trying and a billion dollars in consumer sales, TI has yet to turn a profit. Now the company officially cites as its key problem "shortcomings in the strategic structure," a structure consultants helped create.

Difficult situations like these led to the latest wrinkle in the consulting relationship—suits that amount to malpractice litigation. In 1978 USM Corp., a division of Emhart, called on Arthur D. Little Systems, an ADL subsidiary, to computerize its inventory control and billing procedures. "They made a mess of the job, said they could do no more and walked out," complains Tom Bleasdale, an Emhart vice president. He claims the resulting problems took four years to resolve, and Emhart is now suing ADL for $12 million in treble damages. "We think the claims are grossly excessive and unjustified," says a spokesman for ADL, whose lawyers are hoping to settle.

Consultants, obviously, can trot out success stories. In 1976 Temple, Barker & Sloane, a Lexington, Mass. firm, did a $500,000 study for Natomas. The corporation considered getting rid of its ho-hum American President Lines, but the TBS team recommended new management and sweeping structural changes.

They worked—and American President, which earned $43 million last

Who gives the most advice

These are the nation's largest consulting firms. With the exception of McKinsey and A.T. Kearney, most began as technicians or specialists. But they now get much of their revenue from giving general management advice.

Company	1982 consulting revenues (millions)
Arthur Andersen & Co* (Chicago)	$218
Booz, Allen & Hamilton Inc* (New York)	210
McKinsey & Co, Inc (New York)	145
Arthur D Little, Inc* (Cambridge, Mass.)	141
William M Mercer, Inc* (New York)	120
Towers, Perrin, Forster & Crosby* (New York)	120
Peat, Marwick, Mitchell & Co (New York)	112
Ernst & Whinney (Cleveland)	85
Coopers & Lybrand (New York)	79
American Management Systems, Inc* (Arlington, Va)	65
The Hay Group* (Philadelphia)	60
The Reliance Consulting Group, Inc* (New York)	59
Price Waterhouse (New York)	57
Hewitt Associates* (Lincolnshire, Ill)	54
The Boston Consulting Group, Inc (Boston)	50
SRI International (Menlo Park, Calif)	50
Touche Ross & Co (New York)	49
Arthur Young & Co (New York)	49
AT Kearney, Inc (Chicago)	46
Science Management Corp* (Bridgewater, NJ)	46

*Includes revenues from specialized, technical and/or nonmanagement consulting services.
Source: Consultants News, *Fitzwilliam, NH*

Consultants are far from infallible. . . . As much as 80% of the work that passes for consulting today is either mediocre or poor.

year, has made more money in the past 3 years than it did in the previous 30. The consultants did well, too. Temple, Barker & Sloane still counts American President Lines as a valued client, and its total fees to date come to $4 million.

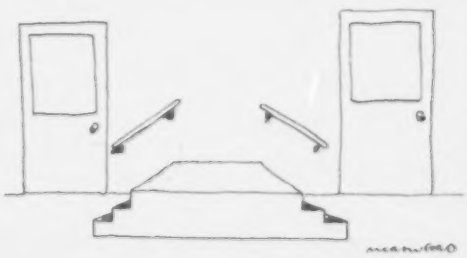
But why couldn't Natomas executives come to this commonsense decision on their own? That's the real issue here. Was there such a disagreement in the company that it required outsiders to resolve it?

In American capitalism, ownership and control are already widely separated. Adolph Berle and Gardiner Means wrote a classic analysis of this division in 1933. One result is an emphasis on short-term gains by top executives who have only a few years to go before retirement. Now, with the increasing importance of consultants, there is a further separation. The people with the responsiblity for the decisions don't necessarily make them.

This may be wonderfully consoling for lots of top managers. But it can lead to a clear abdication of their responsibility. Simply put, there is no firm evidence that tapping outside experts improves corporate decision making. As the A&P and IH cases show, consultants are not infallible.

Carl Sloane, president of Temple, Barker & Sloane, estimates that as much as 80% of the work that passes for consulting today is either mediocre or poor. Arthur Turner, a Harvard Business School professor, agrees. Much of what companies spend on consulting, he says, "pays for impractical data and poorly implemented recommendations."

That's why some businessmen work to keep their distance from consultants. American Home Products, IBM and Hewlett-Packard, for example, are known for solving problems internally. "In a sense, consultants are an opening of the window to let in some fresh air," says former Du Pont Chairman Irving Shapiro. "But your own organization has to come up with the solutions. The implementation has to be done in-house, too. You really can't turn that over to outsiders." Yet in many cases that is precisely what management does.



Peter Drucker, the author and business philosopher, does a good deal of consulting. Yet he maintains that ad hoc corporate task forces are often a better way of solving problems than calling in consultants. Peter Minnock-Stewart, head of the consulting firm Intellectics SMB, tries to help management get at the facts. "But when it comes to decision making," he explains, "a chief executive has to learn where the buck stops. If a consultant does his job right, his usefulness usually diminishes."

It is possible to make use of consultants without abdicating responsibility to them. This is especially true in highly technical matters, such as when a bank, whose executives are chiefly financial men, finds that it must learn something about marketing. But learning is one thing, dependence is another.

When Fred Borch, then General Electric's chairman, set up the company's strategic planning department in the early 1970s, he called on both McKinsey and the Boston Consulting Group. "Since strategic planning was in its infancy, it was helpful to have their views," recalls Reginald Jones, Borch's successor. But GE didn't do what either firm recommended, relying instead on a joint proposal that involved internal managers. It's no accident that GE is considered one of the better-run companies in the U.S.

Akio Morita, the management genius behind Sony, feels the overuse of consultants is a major weakness of U.S. management. He may be right. In Japan, consultants, like lawyers, play a minor role in corporate life. "Using consultants for every strategic decision is a bad mark on chief executives," concludes Richard Hamermesh, who teaches business policy at Harvard. "These guys get paid a fortune, and then they go outside and pay a fortune for help."

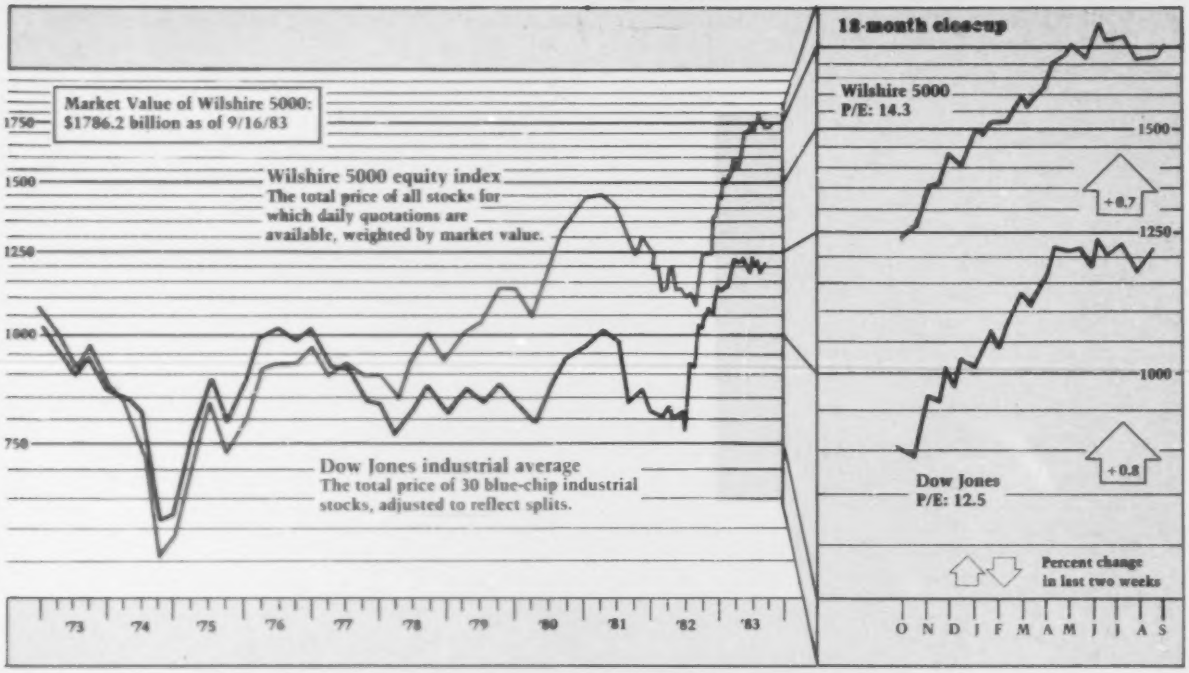
Maybe the Securities & Exchange Commission ought to require companies to disclose how much they spend each year on consultants and what kind of information they get. Stockholders could then weigh this against the level of executive salaries and compare both with profits and come to an intelligent decision about what kind of value they are getting from their well-paid top brass. ■

Who calls consultants?

Nearly all of the Forbes 500s companies use consultants at least once a year, while over one-third bring them in four times or more annually. Some businessmen, of course, ask for outside help even more often. Others, like William Coors, chairman of Adolph Coors Co., take the opposite position. "We'd rather make our own mistakes," he once snapped. Here is a glimpse of corporations on both sides of the spectrum, assembled from interviews with consultants, executives and others.

Heavy users	Near abstainers
Allied Corp	American Home Products
American Express	Citicorp
AT&T	Eastman Kodak
Baxter Travenol Laboratories	General Electric
CBS	Genuine Parts
Emerson Electric	Gulf & Western
Manufacturers Hanover	Hewlett-Packard
Monsanto	IBM
Norton Simon	Textron

The Forbes/Wilshire 5000 Review



Buying time. Blue chips fared better than secondary stocks, but that isn't saying much. Over the last two weeks the Dow industrials flirted with a new alltime high and ended the period eking out a 0.8% gain. The broader NYSE did only marginally better, with a 0.9% upward move. But the Amex and NASDAQ just squeezed into positive territory: The Amex added 0.2% and the NASDAQ 0.1%. For the four-week period Amex issues advanced 0.8%, while the NASDAQ average was off 0.3%. During this same time the Dow registered a 2.6% gain and the NYSE was up 1.3%. The Wilshire index was up 1.2%.

But gains of the big capitalization stocks—which pushed up the capitalization-weighted NYSE and Wilshire indexes—are not representative of what was happening in the overall market. The yardstick measurements below, for example, show that shares in large companies advanced 2.0%, while shares in small companies declined 1.1% over the four-week period.

The yardstick data also indicate that speculators may be moving onto the sidelines. In the last four weeks high-yield issues advanced 2.2%, while stocks that pay no dividends gained only 0.5%. At the same time, however, the price-to-earnings multiples on the Wilshire index and the Dow show minor gains.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.2	1.4	2.6	1.3	0.8	–0.3
in last 52 weeks	40.3	34.5	33.7	36.7	61.1	59.8

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	2.0	–1.1	–0.7	0.8	–0.4	1.3	2.2	0.5	–0.6	1.9	1.5	–1.7
in last 52 weeks	41.7	133.5	119.6	50.9	86.1	124.3	44.7	124.7	139.6	50.2	54.0	123.3

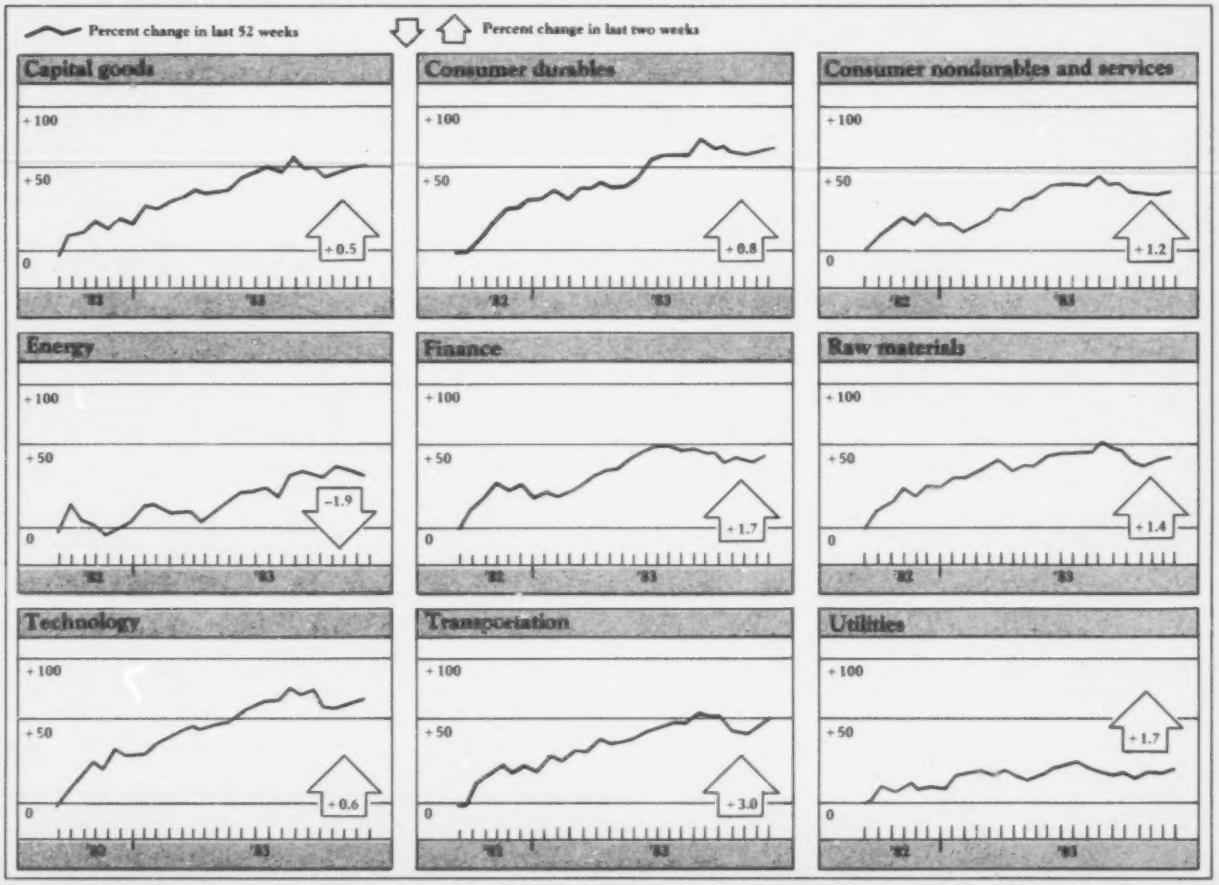
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/16/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

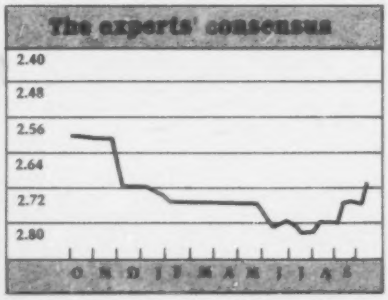
The end of an oil streak? Early this year many energy stocks looked like fundamental bargains. Investors responded by jumping into energy shares, which put this sector on a strong upward trek from late March until mid-August. But energy stocks lost their momentum in recent weeks: Energy was the poorest-performing group during the two- and four-week periods. The oils now lag all groups other than utilities for 52-week performance.

Transportation, up 3%, and utilities and finance, both up 1.7%, outperformed the overall market during the last two weeks. While most brokerage stocks were weak, the large banks helped to keep the finance sector in positive territory. Raw materials, boosted by expectations of increases in commodity prices, were also top performers.



What The Analysts Think

Analysts see bulls. The experts' consensus moved further into the "buy" zone. All groups, except for transportation, show improvement in analysts' opinions. In addition, there were several changes in rankings. Raw materials moved up to second place, and capital goods advanced to third. But transportation and energy slipped.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.41	1	1
2	Raw materials	2.64	3	3
3	Capital goods	2.71	6	6
4	Transportation	2.71	2	2
5	Finance	2.73	5	5
6	Energy	2.74	4	4
7	Technology	2.77	7	7
8	Consumer nondurables	2.78	8	8
9	Consumer durables	2.81	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 9/16/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Supermarket chains, up 123% since the start of 1981, led the market out of its doldrums. How long will they stay in front?

Shopping the grocery stocks

By Steve Kichen

THIS PLACE must be making money hand over fist" is a common checkout-line grumble. The truth, however, is very different. Supermarkets manage only paper-thin margins. They handle massive amounts of inventory and must deal with spoilage, pilferage and high overhead. Price wars are a regular occurrence, and lately—intensified by high unemployment—they have made life even tougher.

Now the good news: People still eat, regardless of economic conditions. That means well-managed, innovative supermarket firms can make acceptable returns, sometimes handsome profits, selling groceries. Chains that offer one-stop shopping can also compensate for the lower profit margins on general food items by selling a wide range of nonfood goods.

Geography is important, too. Stores situated in faster-growing regions have a better base than outfits with their operations focused in depressed sections of the Midwest. And with a more affluent clientele, a company can capitalize on the demand for higher-margin gourmet and precooked foods. Size is another factor: The larger firms are better positioned to enjoy economies of scale and maintain centralized, efficient warehouses.

The result is that well-run supermarkets can be among the first businesses the economy pulls out of a recession. After all, when Dad is recalled by the factory, the family is more likely to celebrate by switching from hamburger to steak or from generics to name brands than by rushing out to the local Ford dealer. This recovery is no different. While Media General's supermarket index is up 123% since the start of 1981, a number of companies have done much better. Borman's, for example, went from 3⅜ to 8⅝, a 156% gain. And A&P is up 155%.

How are the stocks valued right now? The accompanying table lists 50 supermarket and convenience food chains. Note that the average P/E multiple is 10.6. This compares with a current market multiple of 14.3. Pantry Pride, a survivor of the Food Fair bankruptcy, is the priciest of the group, at almost 56 times earnings. It trades with Wall Street's filet mignon because of juicy loss carryforwards. But it's unusual. Low P/E leaders include Borman's, with principal markets in the Midwest and a multiple of 5.4, and King Kullen, with stores on Long Island and a multiple of 5.1. King Kullen has been buying back its shares and is attempting to go private (FORBES, *Sept. 26, 1983*).

In a market where even the most forlorn industrial company is likely to be selling at or above book value, 13 of the companies on our table are priced below book. King Kullen, for example—for every dollar you pay for its stock, you receive $1.53 in book value. Perhaps that is one of the reasons Mutual Shares, a mutual fund specializing in undervalued situations, owns more than 10% of its stock.

Part of the reason supermarket stocks may be undervalued is low

Stroll down these aisles

There are few explosive growth situations among the supermarket and convenience chains listed below. But sharp-eyed investors looking for modest, but steady, growth have lots to choose from.

Ex	Company	Principal service area	Sales (mil)	Recent price	Latest 12-month earnings amount	Latest 12-month earnings % change 12 mos	P/E	Return on equity	Book value/ share	5-year growth rate earnings	5-year growth rate sales
n	Albertson's	West, South	$3,940.1	25	$1.99	14%	12.6	17.2%	$10.44	12%	15%
p	Allied Sprmkts	Midwest	575.7	3¾	0.26	–46	14.4	10.4	7.44	–28	–3
n	American Stores	NE, W, MW, SW	7,507.8	38¾	3.11	37	12.5	19.0	16.16	24	62
o	Arden Group	West, NW	494.1	7	0.66	–11	10.6	7.6	12.54	50	3
o	AJ Bayless Mkts	Arizona	383.8	17½	1.88	–13	9.3	8.9	25.05	–4	10
a	Big V Sprmkts	NY	516.9	14½	1.51	–1	9.6	20.1	7.98	16	15
n	Borman's	Midwest	1,000.9	8⅜	1.59	623	5.4	13.9	12.41	NA	7
o	Bruno's	Alabama	605.2	18¼	0.90	20	20.1	21.9	3.90	26	15
a	Circle K	West, NW	762.8	21	1.52	NM	13.8	NM	5.53	NM	17
o	CONNA	US	229.8	14	0.08	–94	NM	13.3	9.40	–14	50

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter. p: Philadelphia Stock Exchange.
NA: Not available, not applicable. NM: Not meaningful.

Source: William O'Neil & Co.

Statistical Spotlight

visibility on Wall Street. Despite the sales volumes of many of these chains—19 of the firms on our list have revenues of more than $1 billion a year—supermarket stocks are not covered by many analysts. Nash Finch Co. is an extreme example. This Minnesota-based retailer and wholesaler had sales of $1.1 billion in 1982 and is on the Forbes Sales 500. Yet it earned a NASDAQ listing only a few months ago. In fact, the limited exposure of many of these stocks probably means that our list contains an above-average number of special opportunities.

Remember, however, that many of these stocks are far from pure supermarket plays. Arden Group, for example, runs the Mayfair supermarket chain in the West and Northwest, but it also produces, leases and sells facsimile equipment. And Southland, which operates a nationwide chain of 7-Eleven convenience stores, recently acquired oil refining and marketing assets of Cities Service Co. from Occidental Petroleum.

One supermarket chain on analysts' current buy lists is Albertson's. It is among the nation's more aggressive food retailers and also among the largest. Albertson's is a favorite of Merrill Lynch analyst George Quint, who is also partial to Kroger, another big chain. Quint advises investors to avoid "smaller operators of supermarkets not big enough to offer one-stop shopping and not small enough to be convenience stores."

That's a point worth remembering. In the grocery business, every penny counts. Stores that can afford checkout scanners, computerized inventory control, energy-efficient freezers, slick remodeling and attractive promotions have an obvious edge on the competition. ■

Stroll down these aisles

Ex	Company	Principal service area	Sales (mil)	Recent price	Latest 12-month earnings amount	Latest 12-month earnings % change 12 mos	P/E	Return on equity	Book value/ share	5-year growth rate earnings	5-year growth rate sales
o	Cullum Cos	Tex, MW, Calif	$1,127.0	34¼	$3.38	6%	10.3	17.2%	$18.56	13%	12%
t	Dominion Stores	Canada	1,957.2	17½	1.09	–42	16.1	5.6	27.17	–9	2
o	Farm Fresh Inc.	Virginia	265.0	18¾	0.75	29	25.0	26.0	2.27	42	24
o	Fst Ntl Sprmkts	NY, Ohio, NEng	1,267.6	20	2.78	71	7.2	17.1	15.98	30	10
n	Fisher Foods	Midwest	524.0	11	–0.66	NM	NM	NM	15.19	NM	–16
o	Food Lion	Mid-Atlantic	947.0	23¼	0.95	22	24.5	22.4	3.74	23	31
a	Foodarama Sprmkts	NE	426.0	9¾	0.40	–42	24.4	3.8	16.32	NM	3
n	General Host	South, SW	526.7	18½	1.96	NA	9.4	15.0	7.77	NM	–6
a	Giant Food	DC, Mid-Atlantic	1,852.0	20½	2.62	60	7.8	23.0	11.02	22	15
o	Godfrey Co	Wisconsin	485.7	12	1.15	–30	10.4	7.8	16.71	–5	11
n	Grt Atl & Pac Tea	US, Canada	4,607.8	13⅜	0.65	NM	20.6	6.5	8.81	NM	–8
n	Jewel Cos	US	5,571.7	50⅛	6.62	–1	7.6	15.3	49.53	22	13
o	King Kullen Groc	New York	428.1	26¼	5.13	209	5.1	8.7	40.05	5	11
n	Kroger	Midwest, S, W	11,902.0	36¾	4.27	–8	8.6	16.5	29.32	13	12
o	Lil' Champ Fd Strs	NE, Florida	63.5	29½	1.74	25	17.0	15.8	8.43	19	24
t	Loblaw Cos	Can, MW, NE	5,053.9	10⅛	0.93	13	10.9	12.8	5.87	25	10
n	Lucky Stores	West, MW, S	7,973.0	23	2.26	40	10.2	17.0	10.73	2	14
o	Marsh Sprmkts	Midwest	567.0	17¼	1.26	–46	13.7	10.4	11.88	10	10
o	Mayfair Sprmkts	New Jersey	319.5	18	2.92	65	6.2	39.1	5.45	236	12
a	Mott's Sprmkts	Connecticut	293.9	12⅞	1.07	–36	12.0	11.6	10.75	9	12
n	Munford	South	372.6	19½	2.07	16	9.4	14.5	15.76	78	9
o	Nash Finch	Midwest, West	1,120.2	29½	3.66	20	8.1	13.3	26.46	5	10
n	National Cn Strs	South, SW	617.4	26⅞	1.40	9	19.2	20.2	6.07	18	23
n	Pantry Pride	South	945.8	6⅛	0.11	NM	55.7	12.2	2.78	NM	–16
a	Penn Traffic	Mid-Atlantic	462.4	24⅛	2.67	36	9.0	6.2	22.98	–8	9
n	Pueblo Intl	Puerto Rico; V Is	505.9	9⅝	0.54	–28	17.8	6.1	10.55	–7	14
a	Ruddick	NC, SC	521.8	23⅜	2.67	34	8.8	12.8	20.71	10	8
n	Safeway Stores	US, Can, Eur, Aus	17,633.0	24½	3.09	33	7.9	14.0	19.80	1	9
o	Seaway Fd Town	Ohio, Michigan	455.4	12	1.82	–2	6.6	11.3	16.49	2	13
o	Shop & Go	Florida, Georgia	170.7	11½	0.99	9	11.6	22.6	4.04	23	21
a	Shopwell	NY, Conn	477.1	23¾	2.23	–15	10.7	18.4	14.08	53	15
n	Southland	US	6,756.9	42⅝	2.88	4	14.8	15.4	19.48	11	22
n	Stop & Shop Cos	NE, NEng	2,341.9	54⅛	3.94	31	13.8	19.2	17.70	24	8
n	Sprmkts General	NE, NEng	3,247.3	25	2.27	0	11.0	18.3	11.81	17	13
a	Thriftimart	California	503.0	45⅜	5.13	–1	8.8	8.8	64.46	3	9
o	Victory Mkts	New York	322.7	19	1.95	61	9.7	17.8	10.06	26	9
o	Village Sprmkts	NJ, Penna	304.0	18	2.77	20	6.5	12.2	22.77	10	11
o	Waldbaum	NY, Conn, Mass	1,491.4	20½	3.30	36	6.2	16.6	18.87	24	12
n	Weis Markets	NE, Mid-Atlantic	812.2	34½	2.24	14	15.4	17.6	11.88	15	12
n	Winn-Dixie	South, SW	6,764.5	56¼	4.55	9	12.5	19.5	23.20	8	11

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter. p: Philadelphia Stock Exchange. t: Toronto Stock Exchange.
NA: Not available, not applicable. NM: Not meaningful.
Source: William O'Neil & Co.

Soybean bulls will take nice vacations this winter because the Midwest experienced a devastating summer drought. It may not be too late for you to join them.

MEAL TICKET

By Stanley W. Angrist

The excitement in the commodity market during this past summer has come from the corn and soybean pits. Since the first week in July corn has risen more than $1 per bushel, while beans are up more than $3. The bulls' fondest dreams were turned into reality by the two-month-long drought that struck most of the Midwest.

The price increases were justified, based on what has happened to the corn and bean crops now in the process of being harvested. On Sept. 12 the U.S. Department of Agriculture released a report based on the condition of the crop in mid-August, which revealed the extent of the devastation. The corn harvest is now estimated to be 4.4 billion bushels, compared with the 5.2 billion forecast in the mid-July USDA report. The estimated soybean harvest is expected to be 1.53 billion bushels, down from the 1.8 billion predicted earlier.

Let's take a closer look at the expected soybean crop. (Note that unless there is an early frost the mid-August report should be fairly close to the actual crop size.) The soybean crop year starts on Sept. 1. The expected carry-in this year was 450 million bushels. With a crop of 1.53 billion bushels, supply this year will be 1.98 billion bushels. If one allows for a minimum carryover next year of 150 million bushels and a seed use of 90 million bushels, that leaves 1.74 billion bushels available for crushing and export. These numbers will force a rationing of about 13% from the slack demand of the 1982-83 crop year. A U.S. soybean crop of 1.53 billion bushels would indicate a 1983-84 world soybean production of 73 million tonnes, off 23% from the previous season.

The soybean market has reacted to these bullish numbers as expected. The dramatic runup in prices in July and early August was followed by an extremely choppy market in the latter part of August. Is there any money that can still be made in the bean or bean-products markets? I, for one, have no stomach for the extreme volatility recently witnessed in these markets. However, I believe there are a couple of relatively low-risk spread trades that have considerable profit potential.

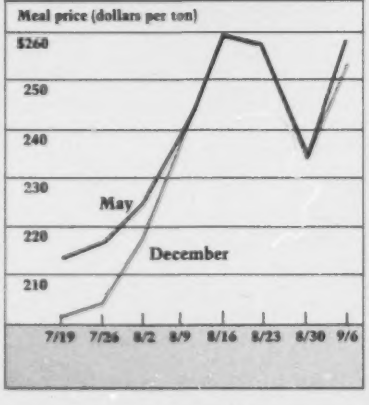
Consider the spread of long December/short May soybean meal. This trade has been unusually reliable *(see table)*. It has shown a profit in bear market years such as 1977, 1979 and 1981. It has also produced a profit in modest bull market years such as 1976 and 1978. Note well, however, that the spread failed miserably in two years with very strong bull markets—1974 and 1980. Therefore, prudent traders placing this trade should give it fairly close attention, as it has the potential to take you to the cleaners.

I would try to buy the December meal with at least a 300-point discount to the May contract. I would look for a profit of about $600 per spread, and I would risk no more than that amount on each spread. The margin on this spread is typically $500, with the round-turn commission about $80. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

The spread

In mid-July, May meal carried a $10-per-ton premium to the December contract. The drought persisted, sending bean prices nearly straight up; the nearby December contract climbed relative to May. Historical evidence says that December will continue to gain on May.



Mealtime?

The spread of long December meal against short May meal has been an unusually reliable one. In 13 seasons it has yielded 10 potentially profitable trades. The prices shown are the average dollar difference for May minus December meal for the week shown. The profit or loss is in dollars per spread.

Dec. contract	——Week ended—— 9/30	11/25	potential p or (l)
1970	–0.47	–0.87	$ 40
1971	1.76	2.76	(93)
1972	1.85	–7.15	820
1973	–1.86	–4.63	277
1974	11.68	20.60	(900)
1975	7.88	1.72	616
1976	4.28	–0.90	518
1977	9.76	5.65	411
1978	4.42	2.15	227
1979	9.04	5.25	379
1980	7.46	14.34	(688)
1981	17.86	11.36	658
1982	9.00	1.78	722

Source: Shearson/American Express.